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Industrial Development Board

Fifteenth session

SUMMARY RECORD OF THE 5th MEETING

Held at the Vienna International Centre, Vienna,
on Wednesday, 8 May 1996, at 3 p.m.

President: Mr. Seung Kon LEE (Republic of Korea)

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The meeting was called to order at 3.10 p.m.

SECOND INDUSTRIAL DEVELOPMENT DECADE FOR AFRICA *(continued)* (IDB.15/6; IDB.15/CRP.2)

INDUSTRIALIZATION OF THE LEAST DEVELOPED COUNTRIES *(continued)* (IDB.15/10)

FIELD REPRESENTATION *(continued)* (IDB.15/12)

1. **Mr. BARINE** (Kenya) said that Africa would do everything within its means to promote industrial development in an endeavour to alleviate the poverty that persisted in that continent on a scale unknown elsewhere. UNIDO accordingly had its wholehearted support. His delegation noted with appreciation the measures taken by UNIDO in previous years to develop the programme for the Second Industrial Development Decade for Africa and welcomed the fact that the level of funding had been maintained. However, the programme was still inadequately funded and he would urge the Director-General to mobilize further sources of finance.

2. Kenya would welcome UNIDO's assistance, at the earliest opportunity, in revising its national programme for the Second IDDA, in line with the Government's decision to transform Kenya into a newly industrialized country by the year 2010.

3. It would also urge UNIDO to take the necessary action to follow up the industrial sector programme review missions carried out in 1994-1995. In view of the low implementation rate in Africa, there should be careful examination, in collaboration with national authorities, of the reasons for failure and their cure.

4. His delegation stressed the importance of the role of the UNIDO Country Director, not only for Kenya, but also for other countries.

5. With reference to the Alliance for Africa's Industrialization, his delegation welcomed the aim of linking the private sector in Africa with that in other continents and mobilizing resources for African industrialization. Those objectives were in line with his Government's decision to adopt industrial development as the theme of its next five-year development plan. The initiative would not jeopardize, but rather supplement, the Industrial Development Decade for Africa.

6. Seventy per cent of the least developed countries were in Africa. There was therefore a moral obligation to help the continent overcome its difficulties and achieve sustained growth. He hoped that the donor community would meet that challenge and thanked it for its past support.

7. **Mr. KOUASSI** (Côte d'Ivoire) said that his delegation welcomed the initiatives undertaken by UNIDO to support the industrialization of the developing countries, particularly those in Africa. At a time when a number of African countries had implemented appropriate adjustments and reforms with a view to embarking on sustainable industrialization, the question of financial resources was the main constraint. His country therefore supported the Director General's commitment to seek such resources in non-traditional areas.

8. The Second IDDA had yielded positive results in a number of fields but the conditions prevailing when the national programmes had been designed had since changed. The assistance provided by the international community, and UNIDO in particular, to the countries of Africa needed to be readjusted. His delegation therefore supported the Director-General's initiative to launch the Alliance for Africa's Industrialization. The Alliance would be an additional tool and provide a fresh framework for economic cooperation to promote the economic development of Africa.

9. **Mr. DE MARIA Y CAMPOS** (Director-General), replying to the comments of delegations on agenda items 8, 9 and 10, said that he was gratified at the interest shown in those topics.

10. With regard to the Second Industrial Development Decade for Africa, he had noted the comments made by delegations, which reflected the importance they attached to the question. As mentioned by the delegation of Ghana, the programme had been decided on some years previously and needed to be updated in the light of major economic changes that had since occurred. The Organization believed that it was necessary to review the achievements of the Decade with a view to developing its activities through the Alliance for Africa's Industrialization. The fundamental principle was that the basis for future work should be the needs and development plans of each country.

11. Assistance was being given to several African countries, such as Kenya, Côte d'Ivoire and Nigeria, in the formulation of industrial master plans or investment policies, a task that was being undertaken by Governments more and more with the support of the private sector. UNIDO was ready, from the technical point of view, to provide the necessary international cooperation. It was also desirable to ensure close coordination between IDDA programmes and other programmes for African and Arab countries. It should, however, be remembered that there were very strict limitations on resources. New ways of financing were being explored in the context of the Alliance for Africa's

Industrialization. Additional voluntary contributions were needed, especially for some high-impact programmes such as quality production of food.

12. Referring to the comment by the representative of France, he said that efforts would be made to achieve a balance between programmes for English- and French-speaking countries. Programmes had sometimes been concentrated more in some countries than in others. That was inevitable in order to ensure the impact of programmes when resources were limited. However, a way would have to be found to develop a more balanced approach to cover all countries, particularly the LDCs, by expanding sources of financing.

13. The representative of Uganda had drawn attention to the problem of countries without UNIDO field representation offices. However, there were projects worth approximately $900,000 in the pipeline for Uganda, which was also served by the field representation office in Nairobi. A very successful investment forum had been held in Uganda, at which new sources of investment had been identified in countries of Europe, Asia, the Indian Ocean rim and the Middle East. Follow-up action had to be taken so that specific investment projects would materialize. For that purpose, project completion facilities which had formerly been provided by UNDP, the World Bank or other financial institutions were needed.

14. With regard to field representation, UNIDO was in a very difficult position, in view of the level of existing resources. He was glad that more and more countries were prepared to finance the local costs of such offices. That was perhaps the basic requirement. He welcomed the approach by the representative of Turkey to the problems of field representation offices.

15. The question of better coordination between UNIDO Country Directors and Investment Promotion Offices was under consideration by the group studying the reform process. Self-financing of the Investment Promotion Offices also had to be improved. The UCD offices were funded out of the UNIDO regular budget, and it was their duty to ensure coordination with other United Nations agencies and to provide neutral services. The Investment Promotion Services represented the interests of the host countries financing them, so that conflicts of interest might arise. In order to solve the difficulty, it was suggested that investment promotion units be established within Investment Promotion offices, with national staff, but under the final responsibility of a UNIDO Country Director. It was necessary to find innovative approaches that would meet various special needs. There was an agreement with India for financing an investment and technological promotion initiative linked to the UCD post. He would be happy to report to the 1996 meeting of the Board on the general question of field representation.

16. With regard to the least developed countries, he announced that the implementation figure of $8.6 million in 1995, though still lower than he would have wished, represented an increase over the previous year. UNIDO was preparing a drastically new, more action-oriented approach to assistance for the least developed countries, for which he hoped he would receive guidance from the Board.

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE:

(a) REVIEW OF THE IMPLEMENTATION OF THE PROGRAMME AND BUDGETS, 1996-1997

(b) UPDATE OF THE FINANCIAL SITUATION OF UNIDO

(c) CEILING OF ASSESSMENTS

(IDB.15/2, IDB.15/3, IDB.15/4, chap. II, IDB.15/5, IDB.15/15)

17. **Mr. VAN RAALTE** (Managing Director, Division of Administration), introducing the item, said with regard to item 5 (a) that the review of the implementation of the programme and budgets, 1996-1997 (IDB.15/5) had been prepared in response to General Conference decision GC.6/Dec.11, authorizing the Board to examine the revised programme and budgets and to recommend appropriate changes in the light of experience during the first quarter of 1996. The review conducted by the Secretariat had concluded that essentially two factors had influenced experience during that period. The first was the few structural adjustments made during the quarter, including the creation of a Policy Coordination programme and reconfiguration of other programmes. Although those changes had entailed some movement of resources between divisions, the basic programme and budget structure had been maintained, and the alterations had not resulted in any change to the overall resource levels of the programme and budgets approved by the General Conference. The second main influence during the first quarter had been the staff reduction exercise. That had caused a slight rise in regular budget expenditures above the linear projections for the period. That factor should correct itself in the coming months.

18. With regard to item 5 (b), the update of the financial situation of UNIDO (IDB.15/3) indicated that the crisis faced by the Organization during the second half of 1995 had been largely overcome. Nevertheless,

because of the high level of arrears of assessed contributions, and since virtually all the reserves available to the Organization had been depleted by the end of 1995, the cash flow situation would continue to be somewhat precarious. An additional $47 million needed to be collected before the end of the year just to break even and, for any of the reserves to be replenished, arrears from previous bienniums would have to be collected from some States. Collection rates for regular budget contributions had improved a little during the first quarter; that had been due to the fact that a few Member States had paid earlier than in the previous year. The Organization nevertheless expected all other Members to show their support by also paying their assessed contributions. On the general question of the collection of assessed contributions, the Secretariat had prepared a paper summarizing the results of a study, conducted in late 1995 by a discussion group, of possible incentive and penalty schemes. The Secretariat was prepared to make that paper available to Member States, which might decide that the discussion group should resume its deliberations. It had been suggested that the group might in future be chaired by one of the Member States. The financial situation of the operational budget had also improved during 1996, owing to a positive income position, and it might be possible to increase the reserve level of $3.5 million at 31 December 1995 to just over $4 million by the end of the current year.

19. Document IDB.15/3 also summarized the measures taken to improve accountability and transparency in financial matters. They included better financial management of the operational budget, a more rational allocation of operational budget resources, and improved presentation of financial statements following the recommendations of a panel of external auditors and of the Inter-Agency Working Group on Accounting Standards. Other measures were the introduction of monthly executive management reports and a review of the Organization's financial regulations and rules, the results of which would be presented to the next Programme and Budget Committee session.

20. Included in document IDB.15/3 was a report on the separation indemnity reserve established at the end of 1995. An amount of $13.6 million had been expended up to 31 March 1995, leaving a balance of $3.4 million to be used to finance non-voluntary staff separations and support costs.

21. The document also referred to promissory notes, which, by a decision of the Executive Committee of the Montreal Protocol Multilateral Fund, would henceforth be acceptable as committable resources. UNIDO's views on the matter had been sought, and it was felt important to bring the information to the attention of the Board. The Secretariat would continue to study the matter and consult Member States before a decision was taken.

22. With regard to item 5 (c), the Board had been requested to review the relevance of the 25 per cent ceiling of assessments, the underlying issue being whether it was wise for UNIDO to rely too much on relatively few Member States when assigning assessment rates. Document IDB.15/3 provided background information on the constitutional basis for the formula currently used, and also described the practices adopted in the preparation of scales of assessments at other organizations of the United Nations system. In that connection, United Nations Headquarters had established two working groups, the High-level Open-ended Working Group on the Financial Situation of the United Nations and an ad hoc intergovernmental group to study the principle of capacity to pay, whose findings it would be important for UNIDO to take into account, to the extent applicable. The document concluded with two suggested options for consideration: either to continue following United Nations practice, or to amend the Constitution, if the maximum rate of assessment was to be lowered from its present level of 25 per cent. The second option would be a complex and time-consuming process.

23. **Mr. WANG Baorong** (China) said that his delegation supported the organizational changes introduced by UNIDO and the adjustments made to the programme and budget structure for the 1996-1997 biennium. Those measures would enhance the positive outcome of UNIDO's reform efforts. China also supported the budget adjustments that had been carried out by the Organization; they had strengthened UNIDO's financial management and would help improve the efficiency of its work and the use of resources. The Organization had achieved remarkable results in its efforts to improve accountability and transparency in financial matters. Further work was still required in that area in order to ensure that additional funds were made available for the promotion of the industrialization of developing countries in spite of the budgetary constraints.

24. His delegation wished to express its deep concern regarding the withdrawal of some countries from UNIDO, which had a serious impact on the Organization's financial situation. China had always fulfilled its obligations by paying its assessed contributions on time. It noted with satisfaction that, as at 31 March 1996, the collection rate for the current year had exceeded 40 per cent. That was a clear illustration of Member States' support for UNIDO's activities and their acknowledgement of the positive results of its reform process. His delegation hoped that States in arrears would settle their unpaid contributions promptly,

in order to ensure the successful operation of the Organization following the completion of its essential reforms. China wished to draw the Secretariat's attention to the need to make savings to the extent possible, in particular in the use of funds, in view of the present financial restrictions.

25. Under the present practice, UNIDO was too dependent on certain individual countries' contributions. His delegation believed that contributions to the Organization should be based on the United Nations scale of assessment. That would result in an improvement in the management of contributions, ensuring the rational and effective utilization of resources.

26. **Mr. DE MARIA Y CAMPOS** (Director-General) said that the Secretariat would continue to employ its best efforts in implementing the budget for the 1996-1997 biennium and to endeavour to make savings wherever possible. It was willing to improve its mechanisms for the formulation, follow-up and control of the budget, as well as any aspects relating to the financial rules and procedures that might assist the process. It would be ready to hold the necessary informal consultations with Member States, whose guidance it sought in the difficult task of constructing a budget on the basis of a programme approach. That was a complex step, which had generated much discussion within the United Nations system, but had been undertaken successfully by only a few organizations.

JOINT INSPECTION UNIT (IDB.15/9)

MATTERS RELATED TO INTERGOVERNMENTAL, NON-GOVERNMENTAL, GOVERNMENTAL AND OTHER ORGANIZATIONS (IDB.15/8 and Add.1, IDB.15/11 and Add.1)

27. **Mr. TAKIZAWA** (Chief, Internal Audit), introducing agenda item 12 on the Joint Inspection Unit (JIU), said that six of the 13 reports issued by the JIU in 1995 were of relevance to UNIDO. Four of them had been summarized in document IDB.15/9, while two would be presented to the Board at its next session.

28. The report on the advancement of women through and in the programmes of the United Nations system (JIU/REP/95/5) examined why little progress had been made with regard to equal rights for men and women. It put forward a number of recommendations, and UNIDO's response was contained in the document before the Board. The report on United Nations system support for science and technology in Asia and the Pacific (JIU/REP/95/7) concluded that the system had significantly contributed to fostering self-reliance in science and technology in the region. It identified a number of success factors and made suggestions with a view to putting that positive experience to use in other regions, including Africa. UNIDO's revised and streamlined policies and procedures for official travel, which were contained in the new Director-General's Bulletin (UNIDO/DGB(M).12), had addressed most of the recommendations made by the JIU in its report on travel in the United Nations (JIU/REP/95/10). Finally, in its reform process, UNIDO had exceeded many of the JIU's recommendations in its report on management in the United Nations (JIU/REP/95/8) and had surpassed the efforts of the United Nations and other organizations.

29. **Mr. KAYALAR** (Director, External Relations Service), introducing agenda item 13 concerning intergovernmental, non-governmental, governmental and other organizations, said that four intergovernmental organizations (IGOs) had expressed the wish to enter into appropriate relationship agreements with UNIDO (IDB.15/8 and Add.1) and that five non-governmental organizations (NGOs) had also applied for consultative status (IDB.15/11 and Add.1). The External Relations Service was currently strengthening cooperation with NGOs in accordance with resolution GC.6/Res.7, which had been adopted by the sixth session of the General Conference, following the first NGO Forum organized by UNIDO, on cleaner industrial production. Follow-up meetings on cleaner industrial production were to be organized in the current year with NGOs in France, the United Kingdom and Austria. A round table on sustainable industries for cities was to be organized by UNIDO and the International Network for Environmental Management (INEM) at the World Business Forum, to be held in conjunction with Habitat II. Linkages between universities and industries were to be discussed at a meeting involving Austrian NGOs, universities and representatives from the industrial sector. Furthermore, UNIDO was to help to organize a special session on business and industrial information in a globally networked society during the Congress on Globalization of Information, organized by an international NGO and was expanding its network of international, regional and national NGOs in the developing and developed countries and in countries with economies in transition.

30. **Mrs. OK** (Turkey), speaking on agenda item 13, said that her Government supported the conclusion of relationship agreements with intergovernmental and governmental organizations, in accordance with Article 19.1 (a) of the Constitution of UNIDO and also supported UNIDO's cooperation with appropriate NGOs in accordance with Article 19.1 (b) of the Constitution. The relationship agreement to be concluded, partly on her country's initiative, between UNIDO and the Black Sea Economic Cooperation (BSEC) would serve the interests of both parties, given the enormous potential available in terms of the geographical area and

population. The partners could focus on areas including investment promotion, small and medium-sized enterprises, the environment and energy and the benefits of such cooperation would undoubtedly be evident in the near future.

PROVISIONAL AGENDA AND DATE OF THE SIXTEENTH SESSION

31. **The PRESIDENT** said that agenda item 14 would be dealt with in informal consultations. However, he would invite the Secretariat to provide a brief explanation of the background to the item.

32. **Mr. KAYALAR** (Director, External Relations Service) said that during the informal consultations on the item, representatives would have before them a draft decision proposed by the Programme and Budget Committee and a conference room paper (IDB.15/CRP.1). Having taken into consideration decision IDB.5/Dec.46, stating that provisional agendas should be drawn up in biennial groups, the Secretariat had arrived at the proposed provisional agenda contained in annex II to IDB.15/CRP.1. With regard to the date of the sixteenth session, he said that the Programme and Budget Committee had decided to postpone its twelfth session, scheduled for 2-6 September 1996, until 18-20 November 1996 and had recommended that the Industrial Development Board should hold its sixteenth session from 20-22 November 1996.

33. **Mrs. OK** (Turkey) asked why investment promotion had not been placed on the agenda for the sixteenth session.

34. **Mr. KAYALAR** (Director, External Relations Service) said that Member States had agreed to review certain items every second or third year. The provisional agenda contained in annex II to IDB.15/CRP.1 was intended to help the Board to decide on the final provisional agenda for its sixteenth session. However, member States would have the right to put forward their suggestions for discussion at the informal consultations and, if required, at the plenary.

The meeting rose at 4.25 p.m.